

## Memorandum

To: Mr. Ramon J. Hirsig  
Executive Director

Date: January 6, 2009

From: David J. Gau, Deputy Director  
Property and Special Taxes Department



Subject: **Supplemental Reporting Requirements for Nonprofit Hospitals**  
(January 22, 2009, Deputy Director's Report, Property and Special Taxes)

Attached is a December 30, 2008 memorandum from Betty Yee concerning supplemental reporting requirements for nonprofit hospitals eligible for the Welfare Exemption from property taxation. Ms. Yee discusses the background on this matter and her proposal to examine approximately one-third of the hospital Organizational Clearance Certificate (OCC) holders during the 2009 periodic claim review process; names of the proposed organizations to be reviewed in 2009; and the proposed draft form BOE-278-H, Supplemental Reporting Form, Organizational Clearance Certificate Holders, Nonprofit Hospital Organizations.

With your approval, this item will be placed on the Board's January 22, 2009 calendar under Deputy Director, Property and Special Taxes Department.

DJG:kn  
Attachment

cc: Ms. Diane Olson

Approved:

  
Ramon J. Hirsig  
Executive Director

BOARD APPROVED  
at the \_\_\_\_\_ Board Meeting

Diane Olson, Chief  
Board Proceedings Division



BETTY T. YEE - 余淑婷  
VICE CHAIRWOMAN  
STATE BOARD OF EQUALIZATION

December 30, 2008

Memorandum

To: Mr. David Gau, Deputy Director  
Property and Special Taxes Department

From: Betty T. Yee, Vice Chairwoman

Subject: Supplemental Reporting Requirements for Nonprofit Hospitals

Thank you and your staff for working with my office over the last several months to develop the Supplemental Reporting Form – Organizational Clearance Certificate Holders – Nonprofit Hospital Organizations and the list of hospital organizational clearance certificate (OCC) holders that I propose be examined in 2009 using the Supplemental Reporting Form.

In preparation for placing this matter on the Board's agenda for its January 21-22, 2009 meeting, I am submitting this memorandum to you for inclusion in the Board meeting materials that discusses the background for this matter; prior examinations of nonprofit OCC holders and the need for the supplemental reporting requirements; and my request of you and your staff to assist in the development of the aforementioned documents to be used in 2009 for reporting by selected hospital OCC holders.

**Background**

Article XIII, Section 4(b) of the California Constitution, as amended on November 7, 1944, authorizes the Legislature to exempt from taxation, property: (1) used exclusively for religious, hospital, or charitable purposes; and (2) owned or held in trust by nonprofit organizations operating for those purposes. A fourth purpose, scientific, was added when the Legislature enacted Revenue and Taxation Code 214 in 1945, which contains the statutory provisions to implement the constitutional provisions. This exemption is also known as the welfare exemption.

To be eligible for the welfare exemption, an organization must meet the following organizational requirements:

- It must be organized and operated for exempt purposes (religious, hospital, scientific, charitable) in accordance with section 214(a).



- It must not be organized or operated for profit in accordance with section 214(a)(1).
- It must have tax exemption status with the Internal Revenue Service under 501(c)(3) of the Internal Revenue Code, or the Franchise Tax Board under 23701(d) of the Revenue and Taxation Code (section 214.8).
- The organization's earnings must not benefit any private shareholder or individual (section 214(a)(2)).
- The organization's formative documents, i.e. Articles of Incorporation, must contain acceptable irrevocable dedication and dissolution clauses as provided by sections 214(a)(6) and 214.01.

Additionally, in order to be eligible for the welfare exemption, the property must be used exclusively for religious, hospital, scientific, or charitable purposes. A qualifying organization's property may be exempted fully or partially depending on how much the property is used for qualifying purposes or activities.

Both the State Board of equalization (BOE) and county assessors are responsible for administering the welfare exemption: the BOE determines whether the organization itself is eligible for the exemption; and the county assessor determines whether the property of a qualifying organization qualifies for exemption based on the property's use. Upon the BOE's determination that an organization qualifies for the welfare exemption, it issues an Organizational Clearance Certificate for Welfare or Veterans' Organization Exemption (OCC). The OCC remains valid until the BOE determines no longer meets the requirements for exemption and the OCC is revoked.

To verify that an organization meets and continues to meet the requirements of Revenue and Taxation Code Section 214, the BOE requires organizations holding an OCC to file a periodic claim form every three years. In its review, the BOE examines an organization's formative documents to ensure acceptable irrevocable dedication and dissolution language, verifies current tax exemption status with the Internal Revenue Service or Franchise Tax Board, reviews California Secretary of State information for current status and recent amendments to articles of incorporation, and reviews activity information to ensure that activities are consistent with the purpose of the organization.

### **Prior Examinations of Nonprofit Hospitals**

**2005 Periodic Claim Review:** In response to increased public inquiries and media coverage in 2004 about nonprofit hospitals and issues relating to these hospitals such as compensation levels for their chief executive officers, the BOE initiated a review of all hospital organizations as part of its 2005 periodic claim review. This review culminated in a report released in May 2006 and determined that all hospital organizations holding OCCs continued to meet the requirements for exemption. Specific findings contained in the report include:

- Organizations are organized and operated for hospital purposes in compliance with Revenue and Taxation Code Sections 214(a) and 214(a)(1). These organizations also have current tax exemption

status with the Internal Revenue Service or Franchise Tax Board under IRC 501(c)(3) or 23701(d), respectively, as required by Revenue and Taxation Code Section 214.8.

- Organizations' earnings do not benefit any private shareholder or individual, in compliance with Section 214(a)(2).
- Organizations' formative documents, i.e., Articles of Incorporation, contain acceptable irrevocable dedication and dissolution clauses, as provided by Revenue and Taxation Code Sections 214(a)(6) and 214.01.

Of the 200 hospital organizations examined, BOE staff found 15 had operating revenues that exceeded operating expenses by ten percent or more of those expenses (surplus revenues). To ensure compliance with Revenue and Taxation Code Section 214(a)(1), further analysis was conducted relating to the use of surplus revenues, whereby BOE staff requested information as to each organization's use of surplus revenues, a further description of certain items identified as deductions from revenues, and the submission of financial statements for additional years to allow BOE staff to analyze surplus revenues over a four-year period. Section 214(a)(1) provides that hospitals are deemed not to be organized or operated for profit, if during the immediately preceding fiscal year, operating revenues, exclusive of gifts, endowments and grants-in-aid, do not exceed operating expenses by the amount equivalent to ten percent of those operating expenses.

This statutory provision was interpreted by an appellate court decision to mean that a nonprofit hospital with net operating revenues in excess of ten percent of its operating expenses can still qualify for the welfare exemption [*Rideout Hospital Foundation, Inc. v. Yuba County* (1992) 8 Cal.App.4<sup>th</sup>214]. The Court of Appeal stated that the legislative intent of section 214(a)(1) was not to deny the exemption to a nonprofit hospital using such excess revenue for debt retirement, plant and facility expansion, or operating cost contingencies.

BOE staff's analysis of the organizations' use of surplus revenues disclosed that surplus revenues were or are being used for one or more purposes specified by the Court of Appeal, including debt retirement, plant and facility expansion, and operating cost contingencies. Overall, the 15 organizations had significant construction projects of new hospitals (inpatient and outpatient facilities), office buildings, and other related facilities; expenditures; which well exceed surplus revenues. Over half the organizations expending funds for plant expansion indicated some construction costs on existing facilities resulting from compliance with seismic retrofitting requirements.

December 2007 Bureau of State Audits Report: In December 2007, the Bureau of State Audits released Report 2007-107, "Nonprofit Hospitals: Inconsistent Data Obscure the Economic Value of Their Benefit to Communities, and the Franchise Tax Board Could More Closely Monitor Their Tax-Exempt Status." This audit report was requested by the Joint Legislative Audit Committee in response to several concerns: that the types of activities conducted by nonprofit hospitals qualify as charitable activities and constitute a broad public benefit; that the current treatment by nonprofit hospitals of revenues in excess of the established statutory threshold (see discussion above) is consistent with the exempt purposes of these organizations; whether the tax exemptions for nonprofit hospitals are still relevant today in light of dramatic changes to the health care industry and the increasing focus on

universal health care access --- which have been highlighted by media coverage relating to compensation levels for nonprofit hospital CEOs, the level of charity care provided by nonprofit hospitals, and the growing uninsured population in California; and that the value of the tax benefits received by nonprofit hospitals is reasonably related to the quality and quantity of the public benefits and charity care they provide.

This report concluded that when taken as a percentage of net patient revenues --- the actual amounts a hospital receives from patients and third-party payers, such as health coverage programs --- the uncompensated care costs provided by nonprofit and for-profit hospitals were not significantly different, both including and excluding Medi-Cal costs. Although benefits provided to the community differentiate nonprofit hospitals from for-profit hospitals, only nonprofit hospitals must report about such benefits, and the categories of services and the associated economic value are not consistently reported among nonprofit hospitals.

Additionally, the report notes that although State law requires that tax-exempt hospitals submit a community benefit plan that contains the activities undertaken to address community needs and assign and report economic values to those benefits, it does not mandate a uniform reporting standard. Significant errors also exist in the property values for tax-exempt hospitals reported by county assessors, and the Franchise Tax Board does not adequately monitor the continuing eligibility of California's income tax-exempt nonprofit hospitals.

In response to these findings: the BOE's County-Assessed Properties Division will incorporate steps in its survey review of county assessment practices to verify proper classification of exempted property based on the type of organization within the welfare exemption; and the Franchise Tax Board (FTB), as resources are available, will focus on increased compliance audits of tax-exempt entities, begin to develop an audit program to review the Form 199 for hospitals, and begin to update the codes to separately identify tax-exempt hospitals from other types of charitable organizations. The FTB has already implemented a procedure to log complaints into a computer database so it may track and identify trends relating to noncompliance with the law.

Internal Revenue Service Oversight of Nonprofit Hospitals: At the federal level, the Internal Revenue Service (IRS) has increased its oversight of the financial practices of the nonprofit community. In December 2007, the IRS released the new version of its Form 990, the annual tax return filed by nonprofit entities. The new version of the Form 990 requires additional details on the finances of nonprofit entities and certification by each entity's board of directors about its monitoring of the organization's finances.

Nonprofit hospitals, which comprise about 40 percent of spending within the nonprofit community, will be required to complete a new Schedule H to the Form 990, specifying the community benefits they provide, including information about their charity care policies, and details about for-profit joint ventures involving their executives and physicians. Nonprofit hospitals must complete Schedule H beginning in 2009 for the 2008 tax year.

Additionally, the IRS began a national survey of the executive pay and charity care provided by nonprofit hospitals pursuant to testimony before Congress about allegedly inappropriate compensation

structures, business ventures, and perks such as gifts and trips on the books of nonprofit hospitals. The IRS survey has not been completed to date.

December 2008 Bureau of State Audits Recommendations for Legislative Consideration: Last week, the Bureau of State Audits issued its "Recommendations for Legislative Consideration from Audits Issued During 2007 and 2008." This report included the following recommendation related to its Report 2007-107 issued in December 2007 (see discussion above):

"If the Legislature expects community benefit plans (plans) to contain comparable and consistent data, it should consider enacting statutory requirements that prescribe a mandatory format and methodology for tax-exempt nonprofit hospitals to follow when presenting community benefits in their plans. Additionally, if the Legislature intends that exemptions from income and property taxes granted to nonprofit hospitals should be based on hospitals providing a certain level of community benefits, it should consider amending state law to include such requirements."

Assembly Bill 2942 of the 2007-08 Regular Session, which was held in the Senate, would have required a standardized format and methodology for hospitals to present community benefit information.

#### **2009 Reporting by Selected Hospital OCC Holders**

As you know, I propose the examination of approximately one-third of the hospital OCC holders during the 2009 periodic claim review process that includes supplemental reporting from these entities on the proposed Supplemental Reporting Form – Organizational Clearance Certificate Holders – Nonprofit Hospital Organizations; a copy of the proposed form is attached. This form is intended to mirror the information requested by the IRS in its Schedule H to the Form 990. The list of hospital organizational clearance certificate (OCC) holders that I propose be examined in 2009 using the Supplemental Reporting Form also is attached and was prepared at my request in consideration of BOE workload priorities and staff resource constraints. This list of hospital OCC holders is intended to be geographically representative of California.

I believe the data your staff will be compiling from the Supplemental Reporting Forms submitted will provide more comparable, consistent, and accurate information to guide the California State Legislature, this Board, the Franchise Tax Board, and other interests as they consider policy changes to better ensure nonprofit hospitals are providing an appropriate level of community benefits as the basis for the value of the hospitals' exemptions from income and property taxes.

Again, thank you and your staff for the assistance you have provided me and my office relating to this proposal for the 2009 reporting by selected hospital OCC holders. I look forward to the discussion of this matter at the January 2009 Board meeting.

Attachments

cc: Mr. Dean Kinnee, Chief  
County-Assessed Properties Division

**PROPOSED ORGANIZATIONS TO EXAMINE FOR 2009 REVIEW OF HOSPITAL  
ORGANIZATIONAL CLEARANCE CERTIFICATE HOLDERS**

OCC No.	Name of Organization	County and locations as of 03-04 Exemption Information
<i>Organizations found to have surplus revenues during last audit:</i>		
1824	California Pacific Medical Center	San Francisco-17
6813	John Muir/Mt. Diablo Health System	Contra Costa-10
6892	Kaiser Foundation Hospitals	Alameda-11, Contra Costa-5, Fresno-1, Los Angeles-12, Marin-1, Placer-1, Riverside-1, Sacramento-4, San Bernardino-2, San Diego-2, San Francisco-9, San Mateo-4, Santa Clara-13, Solano-1, Sonoma-1
8025	Memorial Hospital Association	Stanislaus-4
8234	Mills-Penninsula Health Services	San Mateo-13
15565	Santa Ynez Valley Cottage Hospital, Inc	Santa Barbara-1
12270	St. Jude Hospital	Orange-4
12542	Sutter Delta Medical Center	Contra Costa-2
15735	Sutter Health Sacramento Sierra Region	Placer-5, Sacramento-12, Yolo-4
12548	Sutter Maternity and Surgery Center of Santa Cruz	Santa Cruz-1
12551	Sutter Medical Center, Castro Valley	<i>Previously, OCC number was for Sutter Merced Medical Center, which is no longer owned by Sutter.</i>
12554	Sutter Tracy Community Hospital	San Joaquin-3
<b>Subtotal 12</b>		
<i>Other organizations to include geographic representation and major systems</i>		
385	Alta Bates Summit Medical Center	Alameda-38
14974	Catholic Healthcare West	Kern-12, Los Angeles-9, Sacramento-2, San Bernardino-2, San Francisco-6, San Joaquin-18, Santa Barbara-6, Santa Cruz-2, Shasta-9, Siskiyou-2, Tehama-2, Tulare-2, Ventura-6
2254	Cedars-Sinai Medical Center	Los Angeles-24
15091	Children's Hospital Central California	Fresno-6, Kings-1, Madera-1, Merced-3
2602	Children's Hospital - San Diego	San Diego-14
4106	Eden Medical Center	Alameda-2
4141	El Camino Hospital	Santa Clara-3
5230	Fresno Community Hospital and Medical Center	Fresno-21
6257	Good Samaritan Hospital	Los Angeles-2
7455	Loma Linda University Medical Center	San Bernardino-49
8280	Mission Hospital Regional Medical Center	Orange- 1
9107	Novato Community Hospital	Marin-1
18250	O'Connor Hospital	Santa Clara- 3
14801	Palo Alto Medical Foundation Hospital Corporation (formerly Sutter Santa Cruz)	Santa Cruz-8
10020	Presbyterian Intercommunity Hospital, Inc.	Los Angeles-2
11777	Providence Health System-Southern California (formerly Sisters of Providence in California)	Los Angeles-2
10197	Queen of the Valley Hospital of Napa, California	Napa-3
10401	Redwood Memorial Hospital of Fortuna	Humbolt-3
12138	Saint Agnes Medical Center	Fresno-12
10942	San Diego Hospital Association	San Diego-16
11338	Santa Rosa Memorial Hospital	Sonoma-12
11403	Scripps Health	San Diego-11
16089	Seton Medical Center	San Mateo-5
11563	Sharp Chula Vista Medical Center	San Diego-2
11565	Sharp Coronado Hospital and Healthcare Center	San Diego-2

**PROPOSED ORGANIZATIONS TO EXAMINE FOR 2009 REVIEW OF HOSPITAL**

**ORGANIZATIONAL CLEARANCE CERTIFICATE HOLDERS**

<b>OCC No.</b>	<b>Name of Organization</b>	<b>County and locations as of 03-04 Exemption Information</b>
11568	Sharp Memorial Hospital	San Diego-20
12241	St. John's Hospital and Health Center	Los Angeles-3
12260	St. Joseph Hospital of Eureka	Humboldt-6
12261	St. Joseph Hospital of Orange	Orange-9
12275	St. Luke's Hospital	San Francisco-3
12293	St. Mary Medical Center	San Bernardino-3
12547	Sutter Lakeside Hospital	Lake-1
12550	Sutter Medical Foundation	Nevada-1, Placer-9, Sacramento- 13 , Sonoma-7, Solano-1, Yolo-11
12549	Sutter Medical Center of Santa Rosa	Sonoma-4
12552	Sutter Solano Medical Center	Solano-2
12537	Sutter Coast Hospital	Del Norte-4
12534	Sutter Amador Hospital	Amador-1
12812	Torrance Memorial Hospital Medical Center	Los Angeles-2
<b>Subtotal</b>	<b>38</b>	
<b>Total Organizations to Examine: 50</b>		

**SUPPLEMENTAL REPORTING FORM –  
ORGANIZATIONAL CLEARANCE CERTIFICATE HOLDERS  
NONPROFIT HOSPITAL ORGANIZATIONS**


STATE OF CALIFORNIA  
BOARD OF EQUALIZATION  
[www.boe.ca.gov](http://www.boe.ca.gov)

This form is to be filed with BOE-278-OCC, Verification for Continued Eligibility of Organizational Clearance Certificate-Welfare and Veterans' Organization Exemption. The form must be completed and filed with the Board of Equalization, County-Assessed Properties Division, PO Box 942879, Sacramento, CA 94279-0064 by the due date indicated on BOE-278-OCC.

NAME OF ORGANIZATION \_\_\_\_\_

BOE OCC NUMBER \_\_\_\_\_

CORPORATE ID NUMBER \_\_\_\_\_

MAILING ADDRESS OF INSTITUTION (Street, City, Zip Code, County, State) \_\_\_\_\_

Accounting Period: ☐ Calendar Year ☐ Fiscal Year-ending \_\_\_\_\_

1. What were the organization's operating revenues (exclusive of gifts, endowments and grants-in-aid) for the following years?

2005	2006	2007	2008

2. What were the organization's operating expenses (includes depreciation based on cost of replacement and amortization of, and interest on indebtedness) for the following years?

2005	2006	2007	2008

3. Do the organization's operating revenues exceed operating expenses by 10% or more of those expenses, defined as *surplus revenues* for any of the following years? If yes, identify the amount. (Calculate the amount in 3(a) below)

2005	2006	2007	2008

(a) Calculation of Surplus Revenues

	2005	2006	2007	2008
Net Operating Income (Revenue minus expenses from				
10% of Operating Expense				
Variance (positive indicates surplus)				

4. What were the organization's operating and non-operating revenues and expenses?

Year	Total Operating Revenues	Operating Expenses	Non-Operating Revenues	Non-Operating Expenses	Net Operating Income
2005					
2006					
2007					
2008					

5. **Attach** to this form a copy of your certified/audited financial statements for the last four fiscal or calendar years. Also submit copies of IRS Form 990 for the last four years in electronic PDF format on CD.

**THIS DOCUMENT IS SUBJECT TO PUBLIC INSPECTION**

6. If the organization had surplus revenues for any year, identified in question 3, did the organization use surplus revenues for debt retirement, plant or facility expansion, or reserve for operating contingencies?

☐ Yes ☐ No If yes, enter the total amount of such use for each of the following years:

Year	Debt Retirement	Plant or Facility Expansion	Reserve for Operating Contingencies
2005			
2006			
2007			
2008			

7. **Attach** to this form a description of major plant or facility expansion projects; identifying the project location, scope and timeline for completion.
8. **Attach** to this form a list of properties upon which your organization is claiming the welfare exemption. (*Identify address, county, Assessor's Parcel Number.*)
9. Does the organization have a charity care policy?

☐ Yes ☐ No If yes, provide a copy of the policy and identify the accounts (number and description) used to record such charity care and associated costs for the following years: (*Attach supplementary schedules, if necessary.*)

Account:					Total
2005					
2006					
2007					
2008					

10. Does the organization's hospital(s) provide medical care to Medicare, Medi-Cal or county indigent program recipients?

☐ Yes ☐ No If yes, provide the following information for each year: (*Attach supplementary schedules, if necessary.*)

- (a) Enter the total amount of contractual adjustments for the organization's hospital(s) in accordance with the Office of Statewide Health Planning and Development's Uniform System of accounts for hospitals.

Year	Medicare Recipients	Medi-Cal Recipients	County Subsidy Recipients	Total
2005				
2006				
2007				
2008				

- (b) Enter the total amount received by the organization's hospital(s) for care to such patients.

Year	Medicare Recipients	Medi-Cal Recipients	County Subsidy Recipients	Total
2005				
2006				
2007				
2008				

- (c) Does the organization maintain cost information for care provided to such patients?

☐ Yes ☐ No If yes, enter the total cost of care, according to the organization's cost accounting system.

Year	Medicare Recipients	Medi-Cal Recipients	County Subsidy Recipients	Total
2005				
2006				
2007				
2008				

11. Does the organization's hospital provide medical care for which discounted payments were received from patients for care (other than Medicare, Medi-Cal or county indigent program recipients)?

☐ Yes ☐ No If yes, provide the following information:

(a) Enter the accounts (number and description) used to record such discounted payments and the associated amounts received for medical care for each year.

Account				Total
2005				
2006				
2007				
2008				

(b) Enter the total charge amount prior to discount for each year.

Account				Total
2005				
2006				
2007				
2008				

(c) Does the organization maintain cost information for care provided to such patients?

☐ Yes ☐ No If yes, enter the total cost of care, according to the organization's cost accounting system.

Account				Total
2005				
2006				
2007				
2008				

12. Did the organization's hospital(s) incur bad debt expense for medical care provided to uninsured patients or underinsured patients during any of the specified fiscal years?

☐ Yes ☐ No If yes, enter the hospital(s) total bad debt expense (based on cost accounting) for medical care to such patients?

Year	Uninsured Patients	Underinsured Patients	Total
2005			
2006			
2007			
2008			

13. Did your organization collect revenue from unpaid medical services through third-party collection services for any of the specified fiscal years?

☐ Yes ☐ No If yes, provide the following information:

- (a) Enter the number of delinquent accounts, debt amount and total collected and attach a list of debt collection firms used and contracts for such services.

Year	No. Delinquent Accounts	Debt Amount	Total Collected
2005			
2006			
2007			
2008			

- (b) Enter the number of liens made for delinquent accounts, the amount collected from liens, and the total amount expended to collect delinquent accounts.

Year	No. of Liens on Delinquent Accounts	Total Amount of Liens Collected	Total Amount Expended to Collect Such Debt
2005			
2006			
2007			
2008			

14. Did the organization's hospital(s) invest in, contribute assets to, or participate in any joint venture or similar arrangement with a non-profit or for-profit entity during any of the specified fiscal years?

☐ Yes ☐ No If yes, enter the total number of joint ventures and attach a description identifying the terms and entities involved.

2005	2006	2007	2008

15. Did the organization's hospital(s) provide funds, grants, or non-cash assistance including, but not limited to, supplies, materials, equipment, or medical services, to a public and/or non-related nonprofit tax exempt entity which operates health care facilities (hospitals, community clinics, etc) serving lower-income patients during any of the specified fiscal years?

☐ Yes ☐ No If yes, enter the total contribution amount, according to the hospital's cost accounting system and attach a description identifying the entities involved and what was contributed.

2005	2006	2007	2008

16. Attach to this form an organizational chart that identifies all legal entities related to and/or affiliated with the nonprofit organization receiving the welfare exemption from property taxation under Revenue and Taxation Code section 214. List the full names of the entities and complete street addresses.

17. Did your organization own and operate one or more outpatient clinics (clinics providing psychiatric services to children and/or multispecialty clinics described in Health & Safety Code § 1206, subd.(l)), which receive the welfare exemption from property taxation under Revenue and Taxation Code sections 214 for any of the specified fiscal years?

☐ Yes ☐ No If yes, enter the total number of outpatient clinics providing services and attach a list of clinics, including the clinic's full name, complete street address and type of clinic:

2005	2006	2007	2008

18. Enter the total compensation for the three most highly-compensated executives of the hospital organization for each of the following years. Attach a separate schedule that identifies the amounts of each of the 3 components that are included on the organization's annual Form 990, *Return of Organization Exempt From Income Tax*.

NAME			
2005			
2006			
2007			
2008			

NAME OF PERSON TO CONTACT FOR ADDITIONAL INFORMATION (*Please Print*)

TITLE

E-MAIL ADDRESS

TELEPHONE NUMBER

(      )

**INSTRUCTIONS FOR SUPPLEMENTAL REPORTING FORM –  
ORGANIZATIONAL CLEARANCE CERTIFICATE HOLDERS –  
NONPROFIT HOSPITAL ORGANIZATIONS**

**FILING OF FORM**

This form is to be filed as a supplemental schedule with BOE-278-OCC, *Verification for Continued Eligibility of Organizational Clearance Certificate-Welfare and Veterans' Organization Exemption*; which was mailed to your organization to verify and update our information. Form BOE-278-OCC must be completed and filed with the Board to maintain eligibility for your *Organizational Clearance Certificate*. All questions must be answered; leave no blanks. Use "no," "none," or "not applicable" where needed. Claim form BOE-278-OCC and this Supplemental Reporting Form must be sent to the County-Assessed Properties Division's Exemption Section at the address listed on page 1 of this form. If you have any questions, you may contact the Exemption Section at 916-445-3524.

**1. OPERATING REVENUES**

State the organization's amount of operating revenues (exclusive of gifts, endowments and grants-in-aid) for each year.

**2. OPERATING EXPENSES**

State the organization's amount of operating expenses for each year. (Expenses include depreciation based on cost of replacement and amortization of, and interest on indebtedness.)

**3. SURPLUS REVENUES**

An organization must not be organized or operated for profit in order to continue to qualify for an Organizational Clearance Certificate and the welfare exemption. Hospitals are not deemed to be organized or operated for profit, if, their operating revenues (exclusive of gifts, endowments and grants-in-aid) did not exceed operating expenses by an amount equivalent to ten percent of those operating expenses during the immediately preceding fiscal year. (See Revenue and Taxation Code section 214, subdivision (a)(1).) However, surplus revenues may be used for specific purposes, such as debt retirement, expansion of plant and facilities or reserve for operating contingencies without disqualifying for the exemption.

State the amount of surplus revenues for each year by using the calculation in 3a.

**4. OPERATING AND NON OPERATING EXPENSES**

State the organization's amount of operating revenues, operating expenses, non operating revenues and non operating expenses, and net operating income.

**5. FINANCIAL STATEMENTS AND FORM 990**

In submitting a copy of certified financial statements (balance sheet and operating statement) of the organization, the complete financial details of the organization should be included. If the nature of any item of income or expense is not clear from the account name, further information indicating the nature of the account should be appended. Submit a copy of Form 990, and applicable schedules filed with the Internal Revenue Service for the last 4 years. Do not submit paper copies of statements or returns; submit an electronic copy in PDF format.

**6. USE OF SURPLUS REVENUES**

If the organization had surplus revenues, as calculated in 3, identify the amounts used for debt retirement, plant or facility expansion, or reserve for operating contingencies for each year.

- **Debt Retirement** - Funds required by external sources to be used to meet debt service charges and the retirement of indebtedness on plant assets.
- **Facility Expansion** - The addition of land and/or improvements to a coordinated group of fixed assets – land, buildings, machinery, and equipment constituting a plant.
- **Reserve for Operating Contingencies** - A segregation of retained earnings evidenced by the creation of a subordinate account to meet unforeseen financial needs due to emergencies and changing medical needs.

**7. PLANT OR FACILITY EXPANSION**

Provide a description of plant or facility expansion projects; identifying the project location, scope and timeline for completion.

**8. PROPERTIES CLAIMED FOR EXEMPTION**

Provide a listing of properties upon which your organization is claiming the welfare exemption; identifying the property location (physical address, city, county and Assessor's Parcel Number.)

**9. CHARITY CARE POLICY**

Indicate whether or not the organization has a charity care policy. If yes, provide a copy of the policy and specific information on the policy, including identification of the accounts (number and description) used to record charity care and the cost amounts for each year.

**10. MEDICAL CARE PROVIDED**

Indicate whether or not the organization's hospital provides medical care to Medicare, Medi-Cal or county indigent program recipients for each year. If yes, provide the amount of contractual adjustments in accordance with the Office of Statewide Health Planning and Development's Uniform System of accounts for hospitals; the amount received for such care; and cost of such care according to the organization's cost accounting system.

**11. DISCOUNTED PAYMENTS FOR MEDICAL CARE**

Indicate whether or not the organization's hospital provides medical care for which discounted payments were received from patients for care, excluding than Medicare, Medi-Cal or county indigent program recipients. If yes, identify the accounts (number and description) used to record discounted payment data; the amounts received for such care; and cost of such care according to the organization's cost accounting system.

**12. BAD DEBT**

Indicate whether or not the organization's hospital incurred bad debt expense for each year. If yes, provide the amount of bad debt in accordance with the Office of Statewide Health Planning and Development's Uniform System of accounts for hospitals.

**13. COLLECTION SERVICES**

Indicate whether or not the organization used a third-party collection services to collect revenue from unpaid medical services for each year. If yes, provide the number of delinquent accounts, debt amount and total amount collected. Additionally, attach a list of debt collection firms used and contract for such services. Identify the number of liens on delinquent accounts, the amount collected from liens, and the cost incurred for collection of such delinquent accounts.

- **Third party collection service** – includes, but not limited to, an affiliated or unaffiliated debt collection firm, attorney, or any other type of outside collection service used by the hospital to collect delinquent accounts for medical services, whether or not the account was assigned, transferred or sold to the collection service, and whether or not, the hospital entered into a contract for this service.

**14. JOINT VENTURES**

Indicate whether or not the organization invested in, contributed assets to, or participated in any joint venture or similar arrangement with a non-profit or for-profit entity during any of the specified fiscal years. If yes, provide the total number of joint ventures and attach a description identifying the terms and entities involved (including the name of the entity, the entities legal owner, type of business, the amount and source of funds/assets invested, and if unrelated business income was earned.

**15. ASSISTANCE TO NON-RELATED ENTITY**

Indicate whether or not the organization provided funds, grants or non-cash assistance to unrelated nonprofit or public health care facilities serving indigent patients; and provide the amount contributed according to the hospital's cost accounting system.

**16. AFFILIATED ENTITIES**

Provide an organization chart that indicates all legal entities related to and/or affiliated with your organization (the nonprofit organization receiving the welfare exemption from property taxation under Revenue and Taxation Code section 214). Your submission must identify the full names of the entities, their location (street address, city), and status (non-profit or for-profit).

**17. MULTI-SPECIALTY CLINICS**

Indicate whether or not the organization owned and operated one or more outpatient clinics (clinics providing psychiatric services to children and/or multispecialty clinics described in Health & Safety Code § 1206, subdivision(I)), which receive the welfare exemption from property taxation under Revenue and Taxation Code sections 214 for each year. If yes, provide the total number of outpatient clinics providing services and attach a list of clinics. The listing must include the clinic's full name, complete street address and type of clinic.

- **Outpatient Clinics** –There are two types of outpatient clinics, whether or not patients are admitted for an overnight stay or longer, are eligible for the welfare exemption under the hospital purpose of section 214, including a clinic that provides psychiatric services for emotionally disturbed children and a nonprofit multispecialty clinic. Health & Safety Code section 1206, subdivision (I) defines multispecialty clinic as a clinic operated by a nonprofit tax-exempt organization, which provides health care, health education, and conducts medical research through a group of 40 or more physicians and surgeons who are independent contractors representing not less than 10 board-certified specialties and not less than two-thirds of whom practice on a full-time basis at the clinic. The multispecialty clinic may consist of a single outpatient clinic or multiple clinics operated as a single unified integrated clinic in the aggregate. (Further information on outpatient clinics qualifying for the welfare exemption is available in Assessor's Handbook, Section 267, Welfare, Church, and Religious Exemptions, located on the Board's website at: <http://www.boe.ca.gov/proptaxes/pdf/ah267.pdf>)

**18. EXECUTIVE COMPENSATION**

Provide the total compensation for the three most highly-compensated executives of the hospital organization. Identify the amounts of each component for each executive as reported in the organizations IRS Form 990; (1) compensation, (2) contribution to employee benefit plans and deferred compensation, (3) expense accounts and other allowances.

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